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BAY MILLS

LIMITED

ANNUAL REPORT

for the year ended July 31, 1971

INDUSTRIES USING OUR PRODUCTS:

Aircraft
Aluminum
Boat
Building Construction
Carpet
Cement
Chemical
Curtain
Electrical
Hardware
Highway Construction
Mining and Smelting
Paper
Pipeline Construction
Production Tooling
Reinforced Plastics
Rubber
Tent Manufacturing
Toy
Window Manufacturing

HEAD OFFICE		Midland, Ontario
DIRECTORS		Eric H. Cerny, Montreal Steven F. Cerny, Midland Gustave W. Fewks, Montreal John D. Loveridge, Ingersoll J. Reg. Findley, Toronto Derek H. Mather, Montreal Sidney J. Nicholls, Midland
OFFICERS	Chairman of the Board	Eric H. Cerny
	President	Steven F. Cerny
	Vice-President	Gustave W. Fewks
	Secretary-Treasurer	Sydney J. Nicholls
EXECUTIVE	General Manager	Steven F. Cerny
	General Sales Manager	Sydney J. Nicholls
	Controller	Frank G. Spence, C.A.
	Plant Manager	Felix Kurschner
SUBSIDIARY COMPANY		Filterfab Limited
AUDITORS		Hutchins, Mullin & Blair Chartered Accountants, Toronto
LEGAL COUNSEL		Salter, Reilly, Jamieson & Apple Toronto
TRANSFER AGENT		The Royal Trust Company Toronto
BANKERS		The Toronto-Dominion Bank
ANNUAL MEETING		King Edward Hotel, Toronto November 23, 1971

REPORT TO THE SHAREHOLDERS

Net loss for the year ending July 31st, 1971, was $145,423 compared with net loss for the previous year of $65,365. After allowing for accumulated dividends on Preferred shares, net loss for the last fiscal year amounted to 87.4c per Common share as against 49.8c for the preceding year. Earnings before depreciation, interest and taxes were $115,123 compared with $246,268.

Working capital at July 31st was $675,362 compared with $806,792 on the same date a year ago.

Sales decreased 3.7% from those of the previous year. The main reason for the decline is that shipments to the leisure-time and home furnishing markets were reduced due to poor general economic conditions. The lack of effective anti-dumping legislation, the ease of access to the Canadian market by foreign manufacturers and the increased value of the dollar have all combined to create problems in both sales volume and pricing.

Our Midland plant was running at two-thirds of capacity through most of the fiscal year, but is now running at a higher level. Our present order book combined with a better economic outlook indicates that we will be able to operate at this level throughout the year.

The income of the non-woven division was not sufficient to offset the heavy product/market development expenses required to build this new business. The loss incurred was written off. The division is now operating at close to its capacity and is expected to contribute to earnings from now on. We anticipate expanding the capacity at St. Catharines due to the requirements of a number of product lines, in particular some promising applications for the automobile and carpet industries.

An offer to purchase our subsidiary Filterfab Limited has recently been received and is being considered by your Board. If accepted, it is unlikely to have a significant effect on sales, earnings or working capital.

The Cumulative Preferred Share Dividend was last paid on September 15th, 1970. It is now one year in arrears. Your Company must meet two requirements before dividends can be resumed. It must have net current assets in excess of $750,000 and its net earnings after August 1st, 1968, must exceed dividends paid since that time. Your management does not expect to meet both requirements in this fiscal year.

Our contract with the Union representing our employees expires on December 16th, 1971. In view of the loss incurred your Company has asked the Union to extend the agreement with no changes to the end of July 1972. Your management hopes that the employees and their Union will recognize such an extension to be in everyone's interest, so as to allow the Company to regain its financial strength.

The coming year is expected to continue to be difficult. However with increased utilization of capacity and a contribution to earnings from our non-woven division, the Company is expected to resume its growth in sales and profitability.

Respectfully submitted
on behalf of the Board

Steven Cerny

S. F. Cerny
President

Midland, Ontario
October 20th, 1971

BAY MILLS LIMITED

and wholly owned subsidiary

Statement of Earnings
Year Ended July 31, 1971

	1971	1970
EARNINGS (before undernoted items — Note 6)	$ 115,123	$ 246,268
Depreciation	309,599	316,161
Interest on funded debt	100,272	107,233
Taxes on income (recoverable, deferred)	(149,325)	(111,761)
NET EARNINGS (LOSS)	(145,423)	(65,365)

Statement of Source and Application of Funds
Year Ended July 31, 1971

	1971	1970
SOURCE OF FUNDS		
Net earnings (loss)	$ (145.423)	$ (65,365)
Provision for depreciation	309,599	316,161
Increase (decrease) in deferred tax credit (note 2)	(141,000)	(121,000)
Total from operations	23,176	129,796
Notes payable		54,516
Contributed surplus - area development grant	(3,490)	71,490
Decrease (increase) on other assets	3,697	(5,696)
	23,383	250,106
APPLICATION OF FUNDS		
Net addition to building, machinery and equipment	59,808	412,867
Decrease first mortgage bonds	55,000	55,000
Dividends on preferred shares	8,850	37,760
Decrease note payable	31,155	—
	154,813	505,627
NET CURRENT ASSETS		
NET INCREASE (DECREASE) FOR YEAR	(131,430)	(255,521)
Beginning of year	806,792	1,062,313
End of year	675,362	806,792

ASSETS

	1971	1970
CURRENT ASSETS		
Cash on hand and on deposit	$ 21,523	$ 525
Accounts receivable, trade, less allowance for doubtful accounts	1,040,721	1,152,944
Inventories, at lower of cost and replacement value	1,116,186	1,220,005
Area development grant receivable	—	59,779
Prepaid and deferred expenses	17,092	52,136
Total current assets	2,195,522	2,485,389
FIXED ASSETS (at cost)		
Buildings	1,457,093	1,457,093
Machinery and equipment	2,552,473	2,493,090
Furniture and fixtures	62,367	61,942
	4,071,933	4,012,125
Less accumulated depreciation	1,905,773	1,596,174
	2,166,160	2,415,951
Land	24,353	24,353
Total fixed assets — net	2,190,513	2,440,304
OTHER ASSETS		
Deposits	6,124	11,539
Cash surrender value of life insurance	4,440	2,722
Total other assets	10,564	14,261
	4,396,599	4,939,954

APPROVED ON BEHALF OF THE BOARD

Steven Cerny S. F. Cerny, *Director*

Sidney J. Nicholls S. J. Nicholls, *Director*

The accompanying notes form an integral part of the financial statements

CONSOLIDATED BALANCE SHEET, JULY 31, 1971

LIABILITIES

	1971	1970
CURRENT LIABILITIES		
Due to bank, secured	$ 600,000	$ 731,962
Accounts payable and accrued liabilities	834,008	854,964
Current portion of funded indebtedness	86,152	86,152
Taxes on income, estimated	—	5,519
Total current liabilities	1,520,160	1,678,597
FUNDED INDEBTEDNESS		
First mortgage bonds series A (Note 1)	490,000	525,000
First mortgage bonds series B (Note 1)	360,000	380,000
Note payable due August 31, 1972, 7¾% variable	150,000	150,000
Note payable due July 31, 1978, 7%	250,000	250,000
Note payable due $7,788 quarterly, 9½%	23,361	54,516
	1,273,361	1,359,516
DEFERRED TAX CREDIT (Note 2)	168,000	309,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized:		
149,000 preferred shares, par value $10 each		
500,000 common shares, no par value		
Issued:		
Preferred — 59,000 6% cumulative redeemable, participating first preferred shares Series A (Note 1)	590,000	590,000
Common — 206,985 shares (Note 4)	229,900	229,900
	819,900	819,900
SURPLUS		
Earned surplus	308,344	462,617
Reserve for redemption of preferred shares	1,431	1,431
Capital surplus	10,000	10,000
Contributed surplus (Note 3)	295,403	298,893
	615,178	772,941
Shareholder's equity	1,435,078	1,592,841
	4,396,599	4,939,954

NOTES TO FINANCIAL STATEMENTS

NOTE 1:

First mortgage Sinking Fund Bonds "Series A" and "Series B" were created under a Trust Deed Agreement dated September 1, 1964 and a Supplemental Deed of Trust and Mortgage dated September 1, 1968. The Series A Bonds mature September 1, 1984 and are repayable in principal amounts of $35,000 per annum. The Series B Bonds mature September 1, 1988 and are repayable in principal amounts of $20,000 per annum commencing September 1, 1970. Bonds of both series are redeemable at the option of the company at any time at the prices and subject to the terms and conditions contained in the Trust Deed. Covenants for the Series A and Series B Bonds restrict the payment of cash dividends in the future until net current assets and earned surplus reach specific levels. At July 31, 1971, preferred dividends were in arrears in the amount of $26,550.

NOTE 2:

The deferred tax credit represents estimated tax deferred by claiming approximately $314,400 of capital cost allowance in excess of that recorded in the accounts.

NOTE 3:

The area development grant received is subject to fulfillment by the Company of certain conditions until December 1, 1971 which it is expected that the Company will meet.

NOTE 4:

Outstanding common share warrants and options

	Number of Shares
Warrants with 'Series A' Bonds, $7.00 per share to September 1, 1974	21,000
Warrants with 'Series B' Bonds, $5.00 per share to September 1, 1974, $6.00 per share to 1979	12,000
Warrants with 7% note due July 31, 1978 $4.50 per share to 1973, $5.50 per share to 1978	50,000
	83,000

NOTE 5:

Aggregate direct remuneration paid to salaried directors amounted to $100,177. (1970 — $117,104).

NOTE 6:

Sales and cost of goods sold for the year ended July 31, 1971, compared to the previous year, decreased by 3.69% and .52% respectively.

AUDITORS' REPORT

To the Shareholders of
Bay Mills Limited:

We have examined the consolidated balance sheet of BAY MILLS LIMITED AND WHOLLY OWNED SUBSIDIARY as at July 31, 1971 and the consolidated statements of earnings, surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned financial statements present fairly the consolidated financial position of the companies as at July 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

August 31, 1971

HUTCHINS, MULLIN & BLAIR
Chartered Accountants

Statement of Surplus Accounts
Year Ended July 31, 1971

	1971	1970
EARNED SURPLUS		
Balance August 1	$ 462,617	$ 566,222
Deduct:		
Consolidated net loss for the year	145,423	65,365
Dividends paid on preferred shares	8,850	37,760
Appropriation to reserve for redemption of preferred shares	—	480
	154,273	103,605
Balance July 31	308,344	462,617
RESERVE FOR REDEMPTION OF PREFERRED SHARES		
Balance August 1	1,431	951
Add:		
Amount appropriated from earned surplus	—	480
Balance July 31	1,431	1,431
CAPITAL SURPLUS		
Balance August 1	10,000	10,000
No change during the year	—	—
Balance July 31	10,000	10,000
CONTRIBUTED SURPLUS		
Balance August 1	298,893	284,254
Add:		
Area development grant received (final adjustment)	(3,490)	14,639
Balance July 31	295,403	298,893

OPERATING RESULTS	1971	1970	1969
Earnings	$ 115,123	$ 246,268	$ 635,406
Provision for Depreciation	309,599	316,161	235,471
Interest	100,272	107,233	92,142
Provision for Taxes on Income	(149,325)	(111,761)	154,816
Non Recurring Items	—	—	5,865
Net Earnings (Loss)	(145,423)	(65,365)	147,112
% of Shareholders' Equity at Beginning of Year	(9.1%)	(3.9%)	10.6%
Per Common Share	(87.4c)	(49.8c.)	52.5c.

BALANCE SHEET DATA	1971	1970	1969
Net Current Assets	$ 675,362	$ 806,792	1,062,313
Fixed Assets less Depreciation	2,190,513	2,440,304	2,343,598
Other Assets	10,564	14,261	65,416
Net Tangible Assets	2,876,439	3,261,357	3,471,327
Funded Debt	850,000	905,000	960,000
Other Deferred Financing	591,361†	763,516†	830,000
Shareholders' Equity	1,435,078	1,592,841	1,681,327

FINANCIAL RATIOS	1971	1970	1969
Current Assets to Current Liabilities	1.44	1.48	1.82
Net Tangible Assets to Funded Indebtedness	3.38	3.60	3.62
Shareholders' Equity to Funded Indebtedness	1.69	1.76	1.75

† Includes deferred tax credit

* Prior to expansion in 1965

COMPARATIVE TEN YEAR RECORD

1968	1967	1966	1965	1964	1963	1962
$ 578,435	$ 422,940	$ 243,744	$ 4,042	$ 258,745	$ 280,080	$ 213,220
165,171	171,208	170,560	132,967	75,248	57,166	55,888
41,140	43,415	45,317	31,266	6,374	16,790	15,465
196,000	105,000	—	(69,107)	60,308	82,000	47,090
—	—	—	—	—	—	—
176,124	103,317	27,867	(91,084)	116,815	124,124	94,777
14.2%	9.1%	2.5%	(7.3%)	22.2%	30.0%	30.2%
66.3c.	32.4c.	(3.9c.)	(61.7c.)	39.2c.	—	—
$ 828,036	$ 620,004	$ 419,579	$ 370,598	$ 601,685	$ 406,244	$ 324,896
1,485,902	1,352,946	1,382,343	1,427,739	803,392	313,812	305,383
73,373	6,044	3,755	14,473	11,425	15,882	8,370
2,387,311	1,978,994	1,805,677	1,812,810	1,416,502	735,938	638,649
595,000	630,000	665,000	700,000	170,000	210,410	234,719
408,000 †	105,000 †	—	—	—	—	—
1,384,311	1,243,994	1,140,677	1,112,810	1,246,502	525,528	403,930
1.84	1.60	1.35	1.32	2.25	2.04	2.06
4.01	3.14	2.71	2.59	8.33 *	3.49	2.72
2.33	1.97	1.72	1.59	7.33 *	2.50	1.72

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BAY MILLS LIMITED

MIDLAND

ONTARIO

INTERIM REPORT

Nine Months Ended April 30, 1971

BAY MILLS LIMITED

and wholly owned subsidiary

(UNAUDITED)

	Nine Months Ended April 30, 1971	Nine Months Ended April 30, 1970
STATEMENT OF EARNINGS		
EARNINGS (before under-noted items)	$ 27,793	$ 269,850
Depreciation	230,439	221,250
Interest on funded debt	75,982	80,486
Taxes on income	—	—
NET EARNINGS (Loss)	$ (278,628)	$ (31,886)
STATEMENT OF SOURCE AND APPLICATION OF FUNDS		
SOURCE OF FUNDS		
Net earnings (loss)	$ (278,628)	$ (31,886)
Provision for depreciation	230,439	221,250
Total from operations	(48,189)	189,364
Area development grant	(3,490)	70,713
Change in other assets	1,812	(4,193)
Notes issued	—	56,902
	$ (49,867)	$ 312,786
APPLICATION OF FUNDS		
Net additions to fixed assets	$ 51,150	$ 319,553
Decrease in first mortgage bonds	55,000	55,000
Decrease in notes payable	23,366	—
Dividends on preferred shares	8,850	29,060
	$ 138,366	$ 403,613
Working Cap **NET CURRENT ASSETS**		
Net increase (decrease)	$ (188,233)	$ (90,827)
July 31st	806,792	1,062,313
April 30th	$ 618,559	$ 971,486